



## Chart of the month: External inflows driving growth



Source: Geostat, NBG

In May-22, external inflows increased drastically, supporting growth and local currency. This once again demonstrates that Georgia is a resilient and a well-diversified economy, minimizing the potential negative impact from turbulence in any particular market. These strong external earnings hint also on further positive impact on the economy, prompting us to upgrade 2022 growth outlook despite challenging geopolitical situation.

### Economic summary

**Growth:** The economy grew by 11.6% y/y in May from last year's high base, when growth was 25.8% y/y. Cumulatively, in 5M22, the real growth was 11.2% y/y. We upgraded the 2022 growth forecast from 4.5% to 7.6% (see [here](#)) and considering strong 5M data, we expect 10.6% growth for 2022 in optimistic scenario. Growth in May was broad-based, driven by the transport, hotels & restaurants, energy, manufacturing, mining and construction sectors. On expenditure side, strong remittances, tourism receipts and credit growth, supported consumption.

**Inflation:** Headline CPI increased 13.3% y/y in May, above April's reading of 12.8%. Energy and food prices continued to be primary drivers, and the increased house rents was the main reason for acceleration, contributing 0.6ppts to the headline inflation. Going forward, we think inflation will moderate considering last year's high base and seasonal easing in food prices locally as well as on global markets.

**Monetary policy:** The NBG kept its key rate unchanged at 11.0% on June meeting. Despite high uncertainty, the NBG expects inflation to decelerate as supply-side factors ease and monetary policy remains tight. However, the regulator intends to increase rate if inflation expectations continue to rise and/or demand-side pressures on prices exacerbate. We expect the key rate at 11.0% through 1Q23 and see easing potential from 2Q23.

**FX:** The GEL continued appreciation in May and June, gaining 5.2% vs dollar year-to-date, reflecting strong external inflows coupled with tight monetary policy.

### Activity

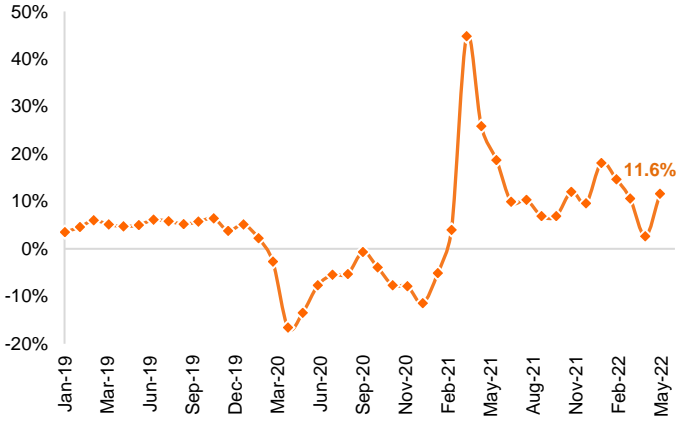
**Trade:** In May, both exports and imports surged by 54.3% y/y and 45.4% y/y, respectively, hitting record high monthly figures despite ongoing Russia-Ukraine war. Being a commodity exporter (ferroalloys, fertilizers, gold, copper - mostly re-exports), Georgia benefits from booming global commodity prices, absorbing growing imports due to higher oil import bill, and better-than-expected growth. The trade deficit was offset by robust remittances and tourism inflows. As a result, external balance (goods trade, remittances and tourism) turned positive for the first time since Sep-19.

**Tourism:** Tourism recovery accelerated significantly in May, with international visitors standing at 319,796 persons and tourism revenues at US\$ 258.6mn, both readings highest in two years. We expect tourism revenues to recover at 85% of 2019 level in a baseline scenario, however considering strong May-22 figure (revenues recovered at 95.6% of 2019 level) and migrant impact, full recovery in 2022 is also likely (see [here](#)).

**Banking sector:** Credit and deposit growth remained robust in May, increasing by 18.1% y/y and 13.1% y/y, respectively, excluding FX effect. Credit growth was driven by both retail (+20.4% y/y) and business loans (+15.7% y/y). GEL appreciation supported dollarization ratios to go down, with loan dollarization at all-time low 48.7% and deposit dollarization at 58.1% (24-year low). Banking sector performance indicators remained healthy in May.

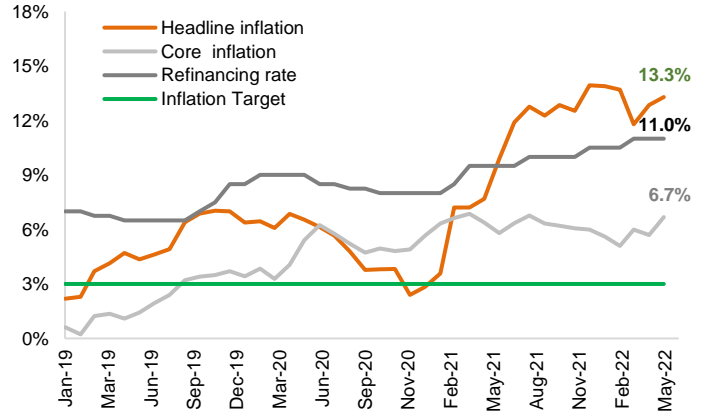


**Real GDP growth, % change y/y**



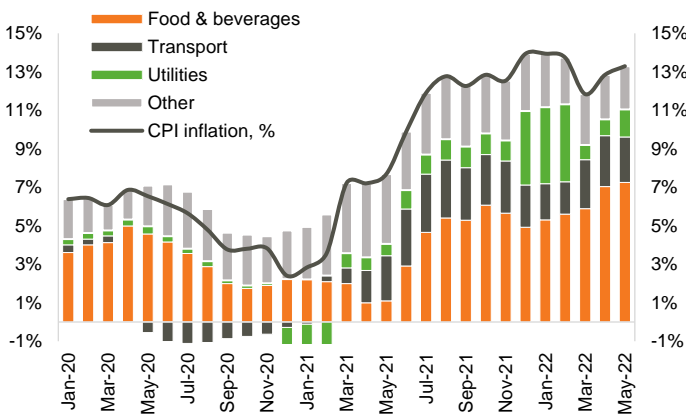
Source: Geostat

**Annual inflation and monetary policy rate**



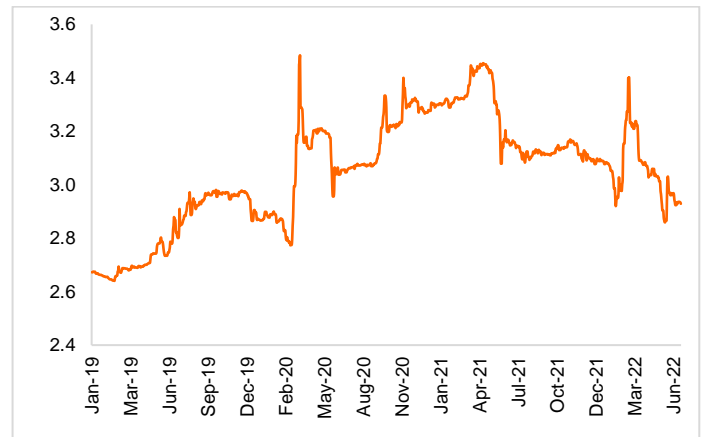
Source: Geostat, NBG

**Contributions to annual inflation**



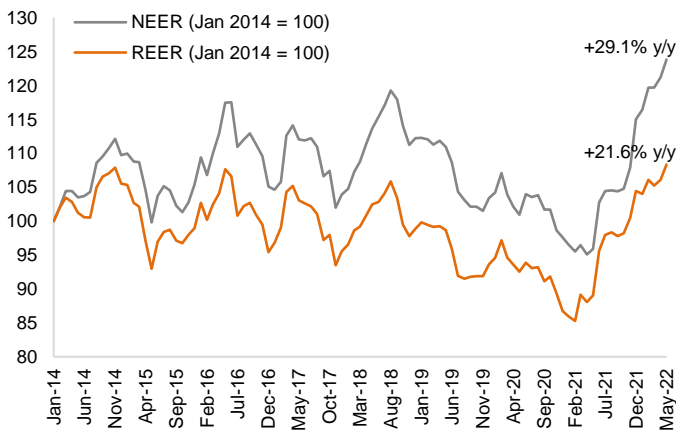
Source: Geostat

**GEL vs USD**



Source: NBG

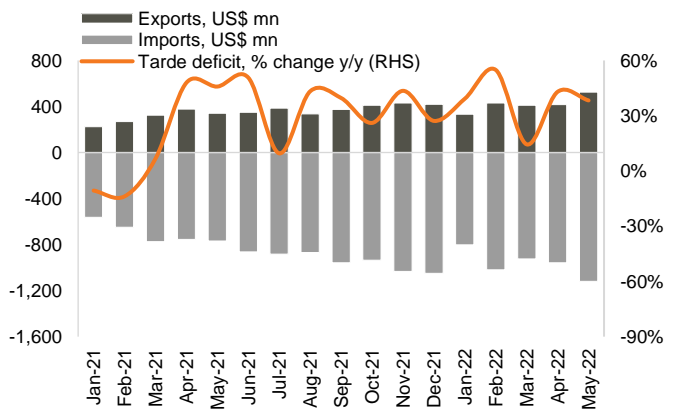
**GEL's nominal effective exchange rate (NEER) and real effective exchange rate (REER)**



Source: NBG

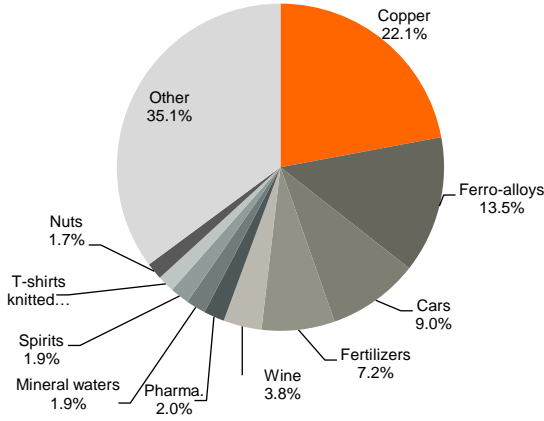
Note: Index growth/decline means appreciation/depreciation of GEL

**Goods exports, imports and trade deficit**



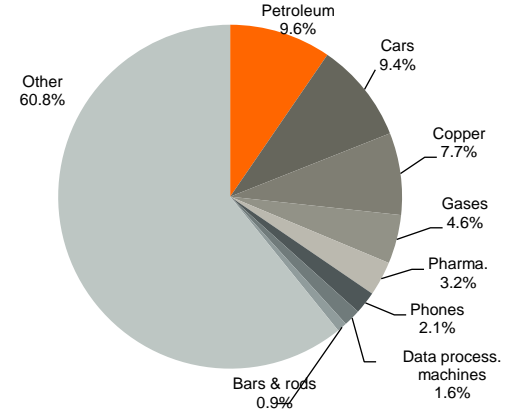
Source: Geostat

**Exports by product, 5M22**



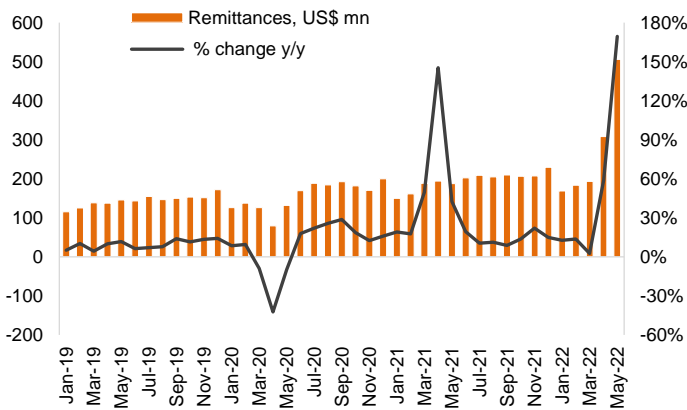
Source: Geostat

**Imports by product, 5M22**



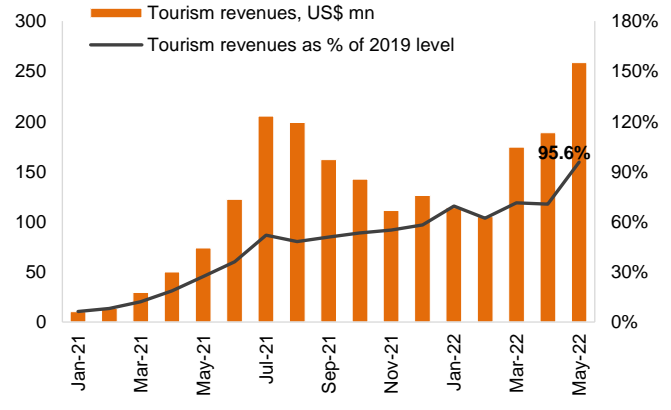
Source: Geostat

**Remittances**



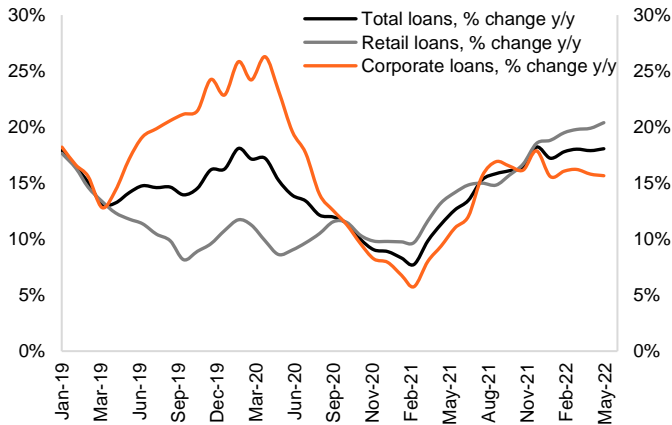
Source: NBG

**Tourism revenues**



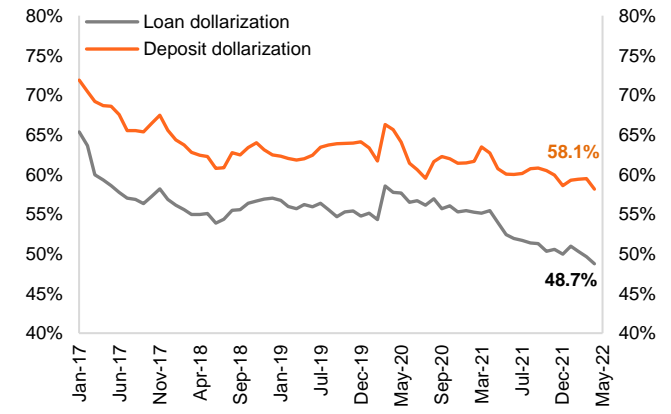
Source: NBG

**Banking sector loan portfolio growth by sector, (excluding FX effect)**



Source: NBG

**Banking sector loan and deposit dollarization**



Source: NBG

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### **Galt & Taggart**

**Address:** 3 A. Pushkini Street, Tbilisi 0105, Georgia

**Tel:** + (995) 32 2401 111

**Email:** [research@gt.ge](mailto:research@gt.ge)